

Message Text

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PAGE 01 REYKJA 00127 261739Z
ACTION EUR-08

INFO OCT-01 SS-14 ISO-00 NSC-05 INR-05 CIAE-00 NSAE-00
EB-04 OMB-01 TRSE-00 L-01 PM-03 DODE-00 /042 W
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FM AMEMBASSY REYKJAVIK
TO SECSTATE WASHDC PRIORITY 8080
INFO AMEMBASSY OSLO
AMEMBASSY COPENHAGEN
AMEMBASSY HELSINKI
AMEMBASSY STOCKHOLM
COMICEDEFOR
CINCLANT

C O N F I D E N T I A L REYKJAVIK 0127

LIMDIS

E.O. 11652: GDS
TAGS: PGOV, EFIN, IC
SUBJECT: ICELANDIC ECONOMIC SITUATION: INCREASED SPECULATION RE
DEVALUATION

WITH RETURN OF ALTHING JANUARY 23RD FOLLOWING CHRISTMAS RECESS,
SPECULATION HAS INCREASED THAT GOVERNMENT MAY SOON BE FORCED
TO TAKE DRASTIC MEASURES, INCLUDING POSSIBILITY DEVALUATION,
TO DEAL WITH COUNTRY'S GROWING INFLATION AND TO HELP HARD-
PRESSED FISHING INDUSTRY, COUNTRY'S MAIN SOURCE, BY FAR, OF
FOREIGN EXCHANGE. NATIONAL ECONOMIC INSTITUTE HAS JUST RE-
LEASED REPORT PROJECTING INFLATION RATE THIS YEAR AT 40 PERCENT
AS AGAINST ITS ESTIMATE OF APPROXIMATELY 32-33 PERCENT AS
RECENTLY AS FOUR MONTHS AGO. CONERN OVER ECONOMIC VIABILITY OF
FISHING INDUSTRY, HAS ALSO INCREASED. OWNERS OF FISH PROCESSING
PLANTS HAVE INCREASED THEIR DEMANDS FOR GOVERNMENT ASSISTANCE
TO RESTORE PROFIT MARGINS WHICH THEY CLAIM HAVE BEEN
WIPED OUT BY WAGE INCREASES THEY WERE FORCED TO CONCEDE
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LAST SUMMER WITH GOI APPROVAL. POSSIBLE DEVALUATION OF
KRONUR IS THEREFORE BEING DISCUSSED MORE WIDELY IN PRESS
AND POLITICAL CIRCLES WITH SOME HINTS THAT GOVERNMENT
MAY BE FORCED TO MAKE DECISION IN THIS AREA WITHIN THE VERY
NEAR FUTURE. PROBLEM GOVERNMENT FACES IN MAKING ANY
SUCH DECISION IS CLAUSE IN UNION AGREEMENTS CONCLUDED
LAST SUMMER WHICH REQUIRES THAT THEY BE REOPENED IF KRONUR

IS DEVALUED. SHOULD PRESENT COALITION BE COMPELLED TO
DEVELOP TOUGH DEFLATIONARY PROGRAM, UNIONS MAY BALK AND
COALITION MAY SEEK VOTE OF CONFIDENCE THROUGH ELECTIONS EARLIER
THAN THOSE HERETOFORE EXPECTED TO TAKE PLACE IN JUNE.
BLAKE

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